



Electric Utility Commission Budget Briefing

Austin Energy



May 16, 2011

Mission: *Deliver clean, affordable, reliable energy and excellent customer service.*

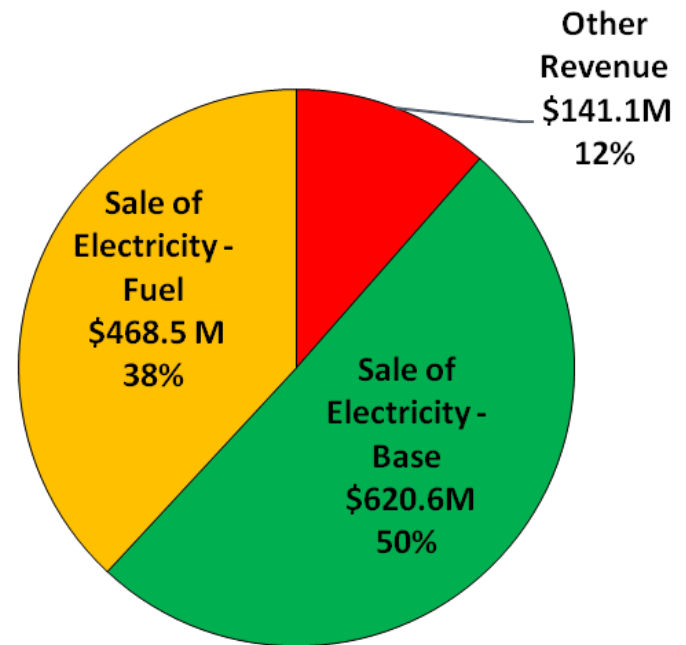


2011 Sources of Funds



- Electricity Sales
- Fuel Charge
- Other Revenue
 - *Transmission*
 - *Infrastructure Rental*
 - *District Cooling*
 - *Customer Fees*
 - *Interest Income*

FY 2011 Revenue
\$1,230.3M



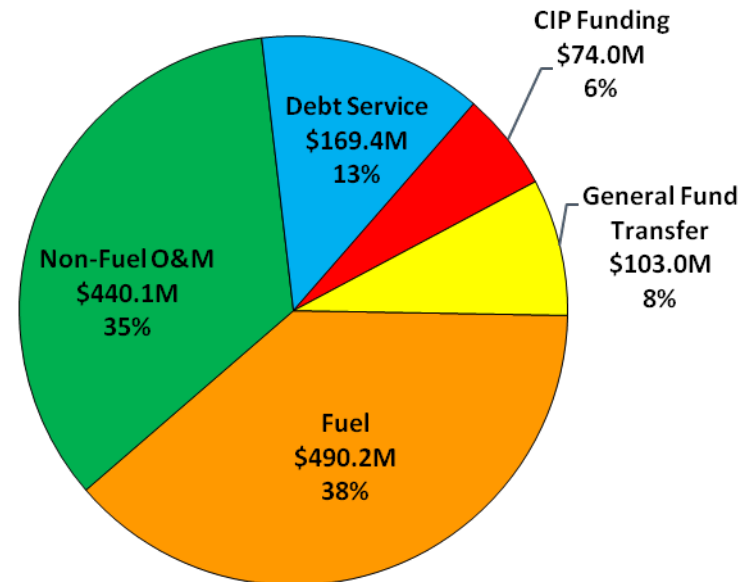


2011 Uses of Funds



- Operating & Maintenance (O&M)
 - *Fuel & Purchased Power, ERCOT Fees*
 - *Non-fuel O&M*
- Capital Improvements (CIP)
 - *Debt Service*
 - *CIP Cash Funding*
- General Fund Transfer

FY 2011 Requirements
\$1,316.9M





Expenditure Key Assumptions



Expenditure Assumption	Utility Control?
No new Full Time Equivalents	Controllable
Labor cost increases (Health insurance, retirement contribution)	Controllable *
Contractual and commodity expenses	Controllable *
Fuel expense – Forecast prices for natural gas, coal, purchased power. Assumed production schedules, planned outages and Nodal Market conditions. Fuel cost forecasts impact fuel revenue in a similar manner.	Not controllable
Transmission expense increases due to ongoing Texas Transmission Construction Program	Not controllable
Capital improvement spending plan <ul style="list-style-type: none">• Carries forward FY 2011-2015 plan updating cash flows; adds FY 2016• Resource, Generation and Climate Protection Plan to FY 2020	Controllable
Debt service requirements <ul style="list-style-type: none">• Principal and interest on existing debt and new debt for capital program• Interest rate on new debt issued• Maintain current bond ratings (affects long-term interest costs)	Controllable * Interest rates are not controllable.
Cash funding for capital projects	Controllable
General Fund Transfer <ul style="list-style-type: none">• Maintains current policy at 9.1% of revenue• Evaluate policy as part of rate review	Controllable

* **Some elements are not controllable.**



2012 Cost Drivers – Capital Program



\$1.1 Billion Five Year Capital Spending Plan

\$ in Millions	Estimate						2012-2016
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Distribution	\$ 58	\$ 59	\$ 61	\$ 63	\$ 64	\$ 61	\$ 308
Distribution Substation	5	16	9	18	15	20	78
Transmission	18	16	26	10	16	13	81
Electric Service Delivery	81	90	96	92	95	94	466
Power Production	74	47	49	52	100	189	437
Customer Service Billing & Metering	16	13	4	4	4	5	30
Facilities, Technology & Support Services	31	85	19	15	16	19	153
Total	<u>\$ 202</u>	<u>\$ 235</u>	<u>\$ 168</u>	<u>\$ 163</u>	<u>\$ 215</u>	<u>\$ 307</u>	<u>\$ 1,087</u>

- Projects for power supply, reliability and customer service
- \$1,087 Million 5-year plan with \$235 Million in 2012
 - Electric Service Delivery - 43% of 5-year plan
 - Power Production - 40% of 5-year plan & includes 200 MW expansion at Sand Hill Energy Center in FY 2015-2017 (deferred 2 years)



2012 Cost Drivers



Category	Estimated Increase	Description
STP Power Plant (nuclear)	\$5.4M	Ownership share (16%) of plant operating costs, primarily due to planned maintenance
Transmission Expense	\$5.7M	Rising costs for Texas Transmission Construction Program
Labor Related	\$5.2M	City-wide cost increases for Health Insurance (10%; \$1.6 million) and Salary Adjustments (3%; \$3.6 million)
Corporate Expense	\$4.1M	2% additional Supplemental Retirement Contribution (\$2.4 million), Franchise Fees (\$1.0 million), Communications & Technology Management updated allocation (\$0.6 million)
Administrative Support	\$1.5M	Updated allocation for administrative support
Debt Service	\$8.3M	Increase in principal and interest on outstanding debt for financing capital program
Transfer to Electric Capital Improvement Program	\$7.7M	Increase in cash funded portion of capital program

Although some cost increases, no longer in a high economic growth period and average residential use is declining.



2012 Above-Base Cost Drivers



- Initial request of \$17.6 million under executive review
- If add back, challenged to find offsetting reductions
- Examples (not prioritized)
 - \$330k lease for additional lease space at 811 Barton
 - \$1,656k new facility System Control Center Extended Warranty & Maintenance (switchgear, UPS, fire alarm, chillers & pumps)
 - \$2,500k Pole inventory audit to update GIS & improve customer billing
 - \$2,275k Sand Hill Energy Center maintenance & repairs
 - \$837k Web service to support ECAD compliance
 - \$150k Consulting for NERC compliance & Quality Program
 - \$410k Outside legal counsel (rate review & water rights)
 - \$215k On-site Energy Services electric & water service expense due to rate and load increases
 - \$470k New Oracle software support & maintenance agreement



Revenue Key Assumptions



Assumptions
Economic data for Travis County
Electric demand or load forecast <ul style="list-style-type: none">• Population and employment growth• Historical patterns of customer mix and usage patterns• Legislation related to energy efficiency• Goal of 800 MW demand side management by FY 2020
Growth in electricity sales and revenue <ul style="list-style-type: none">• Electric demand or load forecast• Growth of 1.1% in number of customers• kWh sales growth of 1.3% derived from normalized weather• Rate increase; revenue requirements increase 12%• Long term contracts fix large customer rates (non-fuel) until May 2015
Recovery mechanism for rising transmission costs
Lower cash balances and interest rates reduce interest income
No use of Strategic Reserve Fund to balance
Maintain \$35 million Revenue Bond Retirement Reserve



Fund Summary (\$ in millions)



		2011 CYE	2012	2013	2014	2015	2016
Beginning Balance	\$	152.8	99.7	93.0	79.6	89.0	171.8
Revenue	\$	1,145.3	1,171.6	1,277.1	1,324.1	1,412.7	1,433.9
Transfers In	\$	0.0	0.0	0.0	0.0	0.0	0.0
Available Funds	\$	1,145.3	1,171.6	1,277.1	1,324.1	1,412.7	1,433.9
Fuel and Purchased Power	\$	401.0	372.2	438.7	445.9	475.3	472.9
Operating Requirements	\$	419.8	407.6	445.1	459.0	490.9	524.9
Debt Service	\$	169.2	177.5	181.5	179.8	137.4	141.5
Transfers Out	\$	178.1	185.8	185.7	189.8	185.2	209.1
Other Requirements	\$	30.3	35.2	39.5	40.2	41.1	41.9
Total Requirements	\$	1,198.4	1,178.3	1,290.5	1,314.7	1,329.9	1,390.3
Excess (Deficiency)	\$	(53.1)	(6.7)	(13.4)	9.4	82.8	43.6
Ending Balance	\$	99.7	93.0	79.6	89.0	171.8	215.4
Strategic Reserve Fund	\$	141.7	141.7	141.7	141.7	141.7	141.7
Debt Service Coverage		1.74	2.01	1.95	2.11	2.95	2.79
Full Time Equivalents (FTEs)		1,721	* 1,712	* 1,712	* 1,712	* 1,712	* 1,712

Ending Balance includes working capital reserve in accordance with City Financial Policy.

* FTEs for Climate Protection Program transferred to General Fund.



2012 Forecast Rate Impacts



- Prior year forecast showed a funding gap in each year
- Priority - protect utility's long-term financial stability & sustainability
- Rate increase combined with cost reductions needed to close the gap
 - Rate redesign currently underway
 - Forecast new rates in place January 2012 & conservative estimate of revenue increase
 - FY 2012 budget development cost management efforts

Department	2011 Monthly Rate	2012 Monthly Rate*	Monthly Dollar Change	
Austin Energy	\$91.62	\$102.53	\$10.91	Based on monthly AE residential customer usage of 1,000 Kwh



Capital Cost Reduction & Control



- FY 2010-2014 Plan reduced from prior 5-year plan
 - (\$63 million) defer electric service delivery projects
- FY 2011-2015 Plan reduced from prior 5-year plan
 - (\$24 million) defer electric service delivery projects
 - (\$10 million) eliminated contingency on Fayette scrubber project, as project nears completion
 - (\$35 million) fewer district cooling projects due to economy
 - (\$5 million) reduction in solar PV for large rooftop lease
- FY 2012 – 2016 Forecast Capital Plan
 - Deferred 200 MW expansion at Sand Hill Energy Center two years to FY 2015-2017 due to lower load forecast
 - Renewable acquisition - Wind purchased power agreement with flip to ownership/debt beyond the forecast period
 - Lower plan due to nearing completion of large projects (Fayette scrubbers, Billing system replacement)



O&M Cost Reduction & Control



- No new FTEs in FY 2010, FY 2011 or Forecast
- FY 2010 decreases in Non-fuel requirements
 - \$3.6 million consulting and temporary services contracts
 - \$15.0 million debt service – lower Capital Plan and interest rate
- FY 2011 decreases in Non-fuel requirements
 - \$6.4 million controllable contractual expenses
 - \$4.0 million 311 call center cost reallocated to other funds
 - \$9.1 million debt service requirements – lower Capital Plan and use of \$4.0 million from over-funded Bond Retirement Reserve



2012 O&M Cost Reductions



- Personnel
 - No new FTEs; eliminate 6 vacant positions
 - Transfer 9 positions to other City departments
- 5% cost reduction options amount to \$12.9 million based on FY 2011 budget (non-fuel)
- Examples (not prioritized)
 - \$1,523.6k Eliminate FY 2011 one-time expenses
 - \$500k Reduced scope for rate review consultants
 - \$478k Reduced billing printing/supplies and postage
 - \$630k Reduce contractual maintenance line clearance tree trimming – distribution lines
 - \$254k Reduce 311 temporary contract 6 positions – increases hold time
 - \$500k Defer solar rebates by reducing program funding by 12.5%
 - \$75k Reduce funding for Clean Energy Incubator from \$325k to \$250k



Next Steps



- Input from Electric Utility Commission
- Online budget input forum
 - <http://austinbudget.austintexas.icanmakeitbetter.com/ideas>
- 5% Budget Reduction Options to be published
 - <http://www.ci.austin.tx.us/financeonline/finance/reports.cfm>
- Continue FY 2012 proposed budget development

Balance budget needs against Austin Energy's mission

*Clean, affordable and reliable energy
with excellent customer service.*



Budget Calendar



- June 6 Departments submit proposed budgets to City Budget
- June 20 Electric Utility Commission Budget Briefing
- July 27 Proposed Budget Presented to City Council
- August 15 Present Proposed Budget to Electric Utility Commission
- August 17 Budget Work Session & Public Hearing
- August 24 Budget Work Session & Public Hearing
- September 1 Public Hearing on Property Tax Rate
- September 12, 13 and 14 Budget Approval Readings

Questions or Comments

more information available at:
www.ci.austin.tx.us/budget

